

Message Text

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PAGE 01 LISBON 01628 01 OF 02 011647Z
ACTION EUR-12

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CEA-01 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00
PA-01 PRS-01 COME-00 SIL-01 LAB-04 IO-13 HEW-04 DHA-02
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LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 1628

ALSO PASS TREASURY FOR SYVRUD

E.O. 11652: N/A
TAGS: ECON, PO
SUBJECT: SOARES ON EMERGENCY ECONOMIC MEASURES

REFS: (A) LISBON 1554, (B) LISBON 1622, (C) LISBON 1621

SUMMARY: IN A FEB 28 NATIONALLY TELEVISED ADDRESS, SOARES
JUSTIFIED RECENT EMERGENCY ECONOMIC MEASURES AS NECESSARY AND
WORTHY OF BROAD-BASED SUPPORT. HE HELD OUT HOPE THEY COULD
SUCCEED IN EFFECTING ECONOMIC RECOVERY IN THREE OR FOUR YEARS
IF ORGANIZED LABOR COOPERATES. END SUMMARY.

1. IN AN HOUR-LONG NATIONALLY TELEVISED FEB 28 ADDRESS,
PRIME MINISTER SOARES EXPLAINED EMERGENCY ECONOMIC MEASURES
TAKEN BY HIS GOVERNMENT FEB 25 (REF A). SUMMARY FOLLOWS.

2. MEASURES: EMERGENCY MEASURES, SOARES STRESSED, WERE PART
OF "GLOBAL PROGRAM TO OVERCOME ECONOMIC CRISIS." THEY CONFIRMED
AND CLARIFIED PREVIOUS GOVERNMENT POLICY AS EMBODIED IN PROGRAM,
PLAN AND BUDGET, AND OTHER MEASURES WHICH HAD RECEIVED
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PAGE 02 LISBON 01628 01 OF 02 011647Z

ENDORSEMENT OF ASSEMBLY OF REPUBLIC. MEASURES HAD BEEN TAKEN
ONLY AFTER CONSULTATION WITH MAJOR POLITICAL PARTIES,
AND, ESPECIALLY, WITH ALL CURRENTS OF ORGANIZED
LABOR. SOARES NOTED THE "RECORD" SPEED WITH WHICH MEASURES HAD BEEN
CLEARED BY REVOLUTIONARY COUNCIL AND PROMULGATED BY PRESIDENT.
MEASURES, IN SUM, WERE NON-PARTISAN, NECESSARY, AND WORTHY OF
WIDESPREAD SUPPORT.

3. ECONOMIC ANALYSIS: SOARES ATTRIBUTED CURRENT DIFFICULTIES TO ECONOMIC POLICIES OF FORMER REGIME, COLONIAL WARS, AND 1975 EXCESSES OF COMMUNIST-LINING GONCALVES REGIME. THE COUNTRY NOW FACED TWO MAJOR

ECONOMIC CHALLENGES: TO STAUNCH AN UNACCEPTABLY HIGH BALANCE OF PAYMENTS DEFICIT AND TO EFFECT STRUCTURAL CHANGES NECESSARY TO BOOST PRODUCTIVITY AND EFFICIENCY. ECONOMIC MEASURES ALREADY PASSED OR FORSEEN IN THE SOON TO BE PRESENTED MID-TERM PLAN WOULD SEE TO THE STRUCTURAL CHANGES: WHEN COMPLETED -- IN THREE TO FOUR YEARS -- THEY WOULD ELIMINATE THE BALANCE OF PAYMENTS DIFFICULTIES. IN THE MEANTIME, CONTINUED SUBSTANTIAL FOREIGN FINANCIAL ASSISTANCE WAS NECESSARY. THE \$1.5 BILLION CONSORTIUM LOAN NOW BEING NEGOTIATED WOULD GIVE PORTUGAL THE "BREATHING SPACE" IT NEEDED. SOARES, REPEATEDLY STRESSED THE LOAN'S IMPORTANCE (REF B).

4. LABOR: SOARES' ADDRESS REPEATEDLY APPEALED FOR SUPPORT OF PORTUGUESE LABOR. "ONLY THE WORKERS COULD OVERCOME THE CRISIS AND SAVE THE REVOLUTION." LABOR MUST FEEL THAT THE SOARES GOVERNMENT WAS THEIR GOVERNMENT, ITS POLICIES THEIR POLICIES. THE GOVERNMENT WAS COMMITTED, SOARES STRESSED, TO PRESERVING THE "REVOLUTIONARY CONQUESTS" AS THE NATIONALIZATIONS AND AGRARIAN REFORM, BUT RESPONSIBLE WORKERS MUST RECOGNIZE THE NEED TO "TAKE A STEP BACKWARD TO PRESERVE THE ESSENCE" OF THESE CONQUESTS. SOME SACRIFICES WOULD BE NECESSARY, BUT THESE WOULD BE TEMPERED BY THE SOCIAL WELFARE MEASURES PASSED FEB 25. PRODUCTIVITY MUST INCREASE, DISCIPLINE MUST RETURN TO THE INDIVIDUAL FIRM. WHILE WORKER RIGHTS WOULD BE PROTECTED, PARALLEL HIERARCHIES WHICH DISRUPTED PRODUCTION LIMITED OFFICIAL USE

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PAGE 03 LISBON 01628 01 OF 02 011647Z

WOULD NOT BE PERMITTED. SOARES ASSURED LABOR THAT, MORE THAN EVER, THE GOVERNMENT WAS WILLING TO FULLY CONSULT IT ON ECONOMIC POLICY. IF LABOR WOULD STICK WITH THE GOVERNMENT FOR THE THREE OR FOUR YEARS NECESSARY FOR THE ECONOMY TO RECOVER, THERE WOULD BE REAL BENEFITS FOR ALL.

5. OTHERPOINTS: SOARES ALSO ADDRESSED THE FOLLOWING POINTS:
--TIMING: THE TIMING OF THE ECONOMIC MEASURES BETWEEN THE LEGS OF HIS TOUR OF E.C. CAPITALS TO LOBBY FOR PORTUGUESE ADMISSION AND PRIOR TO AN EXPECTED LATE MARCH EARLY APRIL MEETING WITH PRESIDENT CARTER WAS NO COINCIDENCE (REF C).
--SOLVENCY: WHILE THE GOP HAD EXHAUSTED ITS FOREIGN EXCHANGE RESERVES, ITS GOLD RESERVES WERE INTACT. TOTAL FOREIGN DEBT CURRENTLY CAME TO \$2.17 BILLION; THE COUNTRY'S GOLD RESERVES COULD COVER THAT. PORTUGAL REMAINED, THEREFORE, SOLVENT FINANCIALLY, AND NO WORSE OFF THAN CERTAIN OTHER EUROPEAN NATIONS WITH FINANCIAL DIFFICULTIES.
--DEVALUATION: THERE WAS NOTHING "DRAMATIC" ABOUT THE MOVE. IN AN THUMBNAIL SKETCH OF ITS EFFECTS, HE STRESSED ITS ROLE IN

CREATING JOBS AND ENHANCING PORTUGAL'S TOURISM POTENTIAL.

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PAGE 01 LISBON 01628 02 OF 02 011631Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 1628

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--FOOD PRICES: SOARES STRESSED THAT THE PRICE OF COMMODITIES
IN THE GOVERNMENT'S "MARKET BASKET" WOULD REMAIN FIXED FOR AT
LEAST ONE YEAR. HE WARNED AGAINST SPECULATION AND HOARDING
AND INDICATED THAT A HIGH COMMISSION FOR PRICES AND SUPPLY
WOULD BE SET UP.

--WAGE LIMITS: SOARES EMPHASIZED THE IMPORTANCE OF HOLDING WAGE
INCREASE TO 15 PERCENT IN ORDER TO KEEP INFLATION IN CHECK.

--PRIVATE SECTOR: SOARES REAFFIRMED THE IMPORTANCE OF THE PRIVATE
SECTOR TO ECONOMIC RECOVERY. HE EXPRESSED CONFIDENCE THAT RAPID
ASSEMBLY PASSAGE OF GOP BILL DELINEATING LIMITS OF PRIVATE AND PUBLIC
SECTOR WOULD RESTORE INVESTOR CONFIDENCE AND STIMULATE PRIVATE
SECTOR.

--INTERVENED COMPANIES: THE STATE COULD NOT CONTINUE TO PROP UP
ECONOMICALLY UNVIABLE ENTERPRISES. IDEALLY, IT WOULD LIKE TO
"DISINTERVENE" ALL STATE SUPPORTED FIRMS, BUT, GIVEN THE
COMPLEXITY OF THE PROBLEM, THIS WOULD BE DONE ON A CASE BY CASE
BASIS.

6. COMMENT: SOARES' ADDRESS WAS DESIGNED TO SELL HIS
GOVERNMENT'S ECONOMIC RECOVERY MEASURES TO THE MAN IN THE
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PAGE 02 LISBON 01628 02 OF 02 011631Z

STREET. SOARES IS UNIQUELY QUALIFIED FOR SUCH A SALESMAN ROLE, AND HE WAS AT HIS BEST LAST NIGHT. HIS STYLE, AS USUAL, WAS INFORMAL; HIS EXPLANATIONS OF THE MEASURES AND THEIR EFFECTS WERE IN LAYMAN'S TERMS; HE CONVEYED CONCERN FOR THOSE WHO WOULD BE HARDEST HIT BY THE MEASURES AND REAL OPTIMISM THAT CURRENT SACRIFICES WOULD BE REWARDED. AT THE SAME TIME HE LEFT NO DOUBT THAT THE MEASURES WERE NECESSARY AND THAT HIS GOVERNMENT WAS DETERMINED TO CARRY THEM OUT. THE ALTERNATIVE TO THE SUCCESS OF HIS PROGRAM, HE STRESSED, WAS DICTATORSHIP. ONE MIGHT ARGUE ABOUT SOME OF THE DATA SOARES CITED BUT, ON BALANCE, HIS PERFORMANCE WAS IMPRESSIVE.

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